

## Italian growth falls to zero in 3Q18

Italy's GDP release for 3Q18 confirms our growth concerns and as no substantial pick up seems conceivable in the fourth quarter, we revise our forecast for 2018 down to 1%



Minister Economic Development Luigi Di Maio, Prime Minister Giuseppe Conte, Minister of Interior Matteo Salvini

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### Domestic demand and net exports both growth neutral

Italy's national statistics agency, Istat's preliminary release of Italian 3Q18 GDP data turned out weaker than expected. Seasonally adjusted GDP was flat quarter on quarter while expanding by 0.8% in annual terms. We along with the consensus had expected a modest expansion of 0.1%.

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Istat indicated that domestic demand (gross of inventories) and net exports were both growth neutral. On the back of a deteriorating international demand backdrop, we expected net exports to

subtract from quarterly growth, but softer domestic demand kept a lid on imports as well. On the domestic demand front, we suspect soft industrial production translated into slower inventory accumulation, with private consumption and gross fixed capital formation just about able to compensate.

## Confidence data paints a mixed picture

Istat also released the first set of confidence data for October, which provided a mixed picture, as it often has lately.

On the one hand, consumer confidence edged up to 116.6 (from 116.1 in September), confirming close to recent highs; the improvement built on the expectation component, while the current component softened.

More worryingly, the composite business confidence fell for the third time in a row, reaching 103.6 - the lowest level since September 2016. The latter reflected declines in the manufacturing, services and retail components, with construction alone posting again. The manufacturing sub-components show a further softening in orders and expected production, not a good omen for industrial production developments over 4Q18.

### We revise our GDP forecast down to 1%

Today's release confirms growth concerns are justified and tentative, soft evidence for 4Q18 doesn't seem to anticipate any substantial turnaround.

With external headwinds likely to continue to weigh on net exports, the onus of growth looks set to remain on domestic demand. If private consumption benefits from past employment gains and bottoming out of wage growth, private investment, which had taken the lead as a growth driver over 1H18, might be burdened by the combination of slowing external demand and domestic political uncertainty.

Tentatively anticipating a 0.1% QoQ GDP expansion for 4Q18, we revise our forecast for average 2018 GDP growth downwards to 1% (from 1.1% previously).

## Author

### Paolo Pizzoli

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

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